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Message Text

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PAGE 01 KABUL 03034 220657Z
ACTION NEA-10

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NEA ONLY

E. O. 11652: NA
TAGS: EFIN, EAIR, AF
SUBJECT: ARIANA AFGHAN AIRLINES PURCHASE OF WIDE BODY JET

REFS: (A) STATE 87361 (B) KABUL 2529

1. TEXT OF WALLACE TO MORRIS LETTER OF MARCH 27, 1978, IS AS FOLLOWS:

"DEAR MR. NORRIS.

ARIANA AFGHAN AIRLINES, THE INTERNATIONAL AIR CARRIER OF THE REPUBLIC OF AFGHANISTAN, PRESENTLY OPERATES AIRCRAFT OF U.S. MANUFACTURE, BOEING, MODELS 727-100 AND 720. AS THESE AIRCRAFT DO NOT NOW PROVIDE US PASSENGER AND CARGO CAPACITY GREAT ENOUGH TO MEET THE DEMANDS OF OUR GROWING MARKET AND PERMIT EXPANSION OF OUR ROUTE STRUCTURE, THE MANAGEMENT OF ARIANA HAS DECIDED THAT A MODERN AIRCRAFT (WIDE BODY) OF GREATER CAPACITY THAN OUR PRESENT AIRCRAFT MUST BE ACQUIRED.

"TO THIS END, WE HAVE OBTAINED DETAILED PROPOSALS FROM ALL THE U.S. MANUFACTURERS OF WIDE BODY AIRCRAFT. COMPARISONS AND EVAL-
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UATION OF THESE PROPOSALS HAS BEEN UNDER STUDY BY OUR STAFF FOR SOME TIME. AS YOU CAN UNDERSTAND, BUYING A WIDE BODY AIRPLANE IS A MAJOR STEP FOR ARIANA AND THE TOTAL COST OF THE ACQUISITION IS OF MAJOR IMPORTANCE TO US. NOT ONLY MUST THE AIRPLANE WE SELECT MEET OUR NEEDS FOR INCREASED CAPACITY AND HAVE PERFOR-MANCE FOR ECONOMIC OPERATION OVER OUR ROUTES, BUT IT MUST BE WITHIN OUR CAPABILITY TO SERVICE DEBT OBLIGATION. THUS OUR

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CONCERN NOT ONLY WITH THE FINAL SELLING PRICE OF THE AIRPLANE, SUPPORT EQUIPMENT, SPARE PARTS, ETC., BUT WITH COST OF FINANCING WHICH WILL BE A MAJOR COMPONENT OF THE TOTAL FINAL COST.

"THE U.S. MANUFACTURERS HAVE MADE OFFERS WHICH INCLUDE PROBABLE EXIM BANK SUPPORT OF THE SALE OF THEIR AIRCRAFT. VARIOUS U.S. COMMERCIAL BANKS HAVE EXPRESSED THEIR INTEREST IN FINANCING THE COMMERCIAL BANK PORTION OF THE TOTAL LOAN. ARIANA IS PREPARED TO SUPPORT THE INITIAL PAYMENT FROM ITS OWN RESOURCES.

"IF WE ARE TO BUY A U.S. MADE AIRCRAFT, THE MAXIMUM ASSISTANCE POSSIBLY BY THE U.S. EXPORT-IMPORT BANK IS A REQUISITE. WE THEREFORE REQUEST THAT YOUR GOOD BANK EXTEND A PRELIMINARY COMMITMENT TO FUND AS MUCH AS POSSIBLE OF THE COST OF ACQUIRING ONE OF THE AVAILABLE U.S. WIDE BODY AIRCRAFT. WE ESTIMATE THE APPROXIMATE PRICE OF THE AIRCRAFT PROGRAM WE ARE CONSIDERING TO BE DOLLARS FIFTY MILLION. WE ALSO REQUEST THAT YOUR LOAN BE AT THE LOWEST POSSIBLE RATE OF INTEREST FOR A TEN-YEAR TERM, AND WITH A GRACE PERIOD COVERING SUCH LOAN AS DICTATED BY YOUR PARTICIPATION.

"WE BELIEVE WE CAN ARRANGE COMMERCIAL LOANS FOR THE BALANCE OF THE PROGRAM COST, TO BE REPAID IN THE EARLIER MATURITIES FOLLOWING AIRPLANE DELIVERY.

"WE ARE PREPARED, OF COURSE, TO PROVIDE YOU WITH ALL THE DATA
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NECESSARY TO DEMONSTRATE OUR ABILITY TO GENERATE REVENUE AND SERVICE THE NEW DEBT PRIOR TO FINAL ACTION ON OUR APPLICATION. YOUR PRELIMINARY COMMITMENT, HOWEVER, IS REQUIRED TO SUPPORT OUR RECOMMENDATION TO OUR DIRECTORS AND GOVERNMENT. VERY TRIY YOURS, WILLIAM F. WALLACE, EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER."

2. COMMENT: WALLACE HAS RECEIVED A REPLY TO HIS LETTER FROM EXIM BANK ASKING FOR ADDITIONAL DATA BEFOR A PRELIMINARY COMMITMENT IS MADE AND IS NOW PREPARING A RESPONSE. HE EXPECTS TO FORWARD DATA IN ABOUT ONE WEEK. WALLACE HAS SAID THAT, DURING HIS MEETING WITH EXIM BANK IN WASHINGTON, ONE CONCERN EXPRESSED BY EXIM WAS THE LOW CAPITALIZATION OF ARIANA (APPROXIMATELY $500,000). TOTAL ASSETS OF THE AIRLINE ARE AROUND TEN MILLION DOLLARS. WALLACE SAID HE EXPLAINED TO EXIM THAT GIVEN PANAM'S PRESENT SITUATION, HE DID NOT THINK THAT THE CAPITALIZATION OF THE COMPANY COULD BE INCREASED. IN ANY CASE, WE DO NOT BELIEVE THIS ISSUE SHOULD BE A MAJOR ROADBLOCK. ARIANA IS 51 PERCENT GOVERNMENT OWNED AND A MORE IMPORTANT POINT FOR EXIM TO CONSIDER IS THE FINANCIAL POSITIONS OF ARIANA AND OF THE GOVERNMENT OF AFGHANISTAN, WHICH ARE SOUND.
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